

MASON COUNTY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

- WITH INDEPENDENT AUDITORS' REPORT -

**MASON COUNTY SCHOOL DISTRICT
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Independent Auditors' Report

Members of the Board of Education
Mason County School District
P.O. Box 130
Maysville, Kentucky 41056

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mason County School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

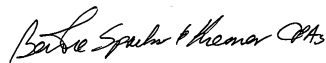
We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mason County School District, as of June 30, 2012, and the respective changes in financial position, respective budgetary comparison for the General Fund and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2012, on our consideration of the Mason County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 7, and Budgetary Comparison Information, on page 14, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Mason County School District's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Bertke, Sparks & Kremer, Inc.
September 13, 2012

**MASON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

As management of the Mason County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$4,862,694
- Mason County Schools lost approximately \$1,000,000 in fiscal year 2012, due to assuming salaries from the loss of ARRA funds. In fiscal year 2012, Mason County Schools didn't gain much back through SEEK and other state or federal funds; therefore, we continue to watch expenditures closely:
 1. Only step increases were given.
 2. We have continued to reduced overtime.
 3. New policies were put in place for cell phones, which has decreased expenses.
 4. New policies were put in place for travel to eliminate over-expenditures. We now use \$50 per diem rate across the District.
 5. ARRA funds are no longer paying any salaries so General Fund had to pick up the difference.
 6. Purchased 6 buses, 3 from General Fund and 3 through KISTA.
 7. Board agreed to take the compensating tax rate to receive the same amount of funds.
 8. Replaced flooring in two rooms at the High School.
 9. Eliminated one Central Office Classified position.
 10. EduJobs helped with 4 staff members salaries.
 11. We changed our replacement cycle from annual purchasing of equipment to a 3 to 4 year lease
 12. Replaced flooring and removed wallpaper in Board room
 13. Constructed spillway at the Jockey property to control pond overflow
 14. We saved approximately \$500,000 by refinancing the Mason County Intermediate School.
- The General Fund had \$21,335,254, excluding interfund transfers, in revenue, which primarily consisted of the state program (SEEK), property, local occupational license taxes, utilities and motor vehicle taxes. Excluding inter-fund transfers, there was \$22,310,212 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. We paid a significant amount out of General Fund for projects that were completed throughout the year. Funds were then requested from Capital Outlay to cover those expenses.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

**MASON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 35 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$14,830,418 as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**MASON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
YEAR ENDED JUNE 30, 2012**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)

Net Assets for the periods ending June 30, 2012 and 2011

The following table presents a summary of net assets for the fiscal years ended June 30, 2012 and 2011.

	2012	2011
Current assets	\$ 4,636,016	\$ 5,468,760
Noncurrent assets	<u>24,778,637</u>	<u>24,440,744</u>
Total assets	<u>\$ 29,414,653</u>	<u>\$ 29,909,504</u>
Current liabilities	\$ 1,847,765	\$ 1,458,295
Noncurrent liabilities	<u>12,736,470</u>	<u>12,784,538</u>
Total liabilities	<u>\$ 14,584,235</u>	<u>\$ 14,242,833</u>
Net assets		
Investment in capital assets (net of debt)	\$ 11,043,306	\$ 11,088,749
Restricted	480,404	857,435
Committed	208,181	224,039
Nonspendable	26,969	39,551
Unassigned	<u>3,071,558</u>	<u>3,456,897</u>
Total net assets	<u>\$ 14,830,418</u>	<u>\$ 15,666,671</u>

Comments on Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2012, net of inter-fund transfers, were \$21,335,254
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$3,839,537 more than budget or approximately 22.9%. This is a result of the District recording "on behalf" payments made by the State.
- The total cost of General Fund programs and services was \$22,310,212, net of interfund transfers and debt service.
- General Fund actual expenditures exceeded budgeted expenditures by \$4,020,116 in instruction. This is a result of the District recording "on behalf" payments made by the State.

**MASON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
YEAR ENDED JUNE 30, 2012**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)

The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2012 and 2011.

	2012	2011
Revenues:		
Program Revenues:		
Charges for services	\$ 686,330	\$ 729,971
Operating grants and contributions	4,295,965	5,440,271
Capital grants and contributions	<u>511,131</u>	<u>528,834</u>
Total program revenues	<u>5,493,426</u>	<u>6,699,076</u>
General Revenues:		
Property taxes	4,884,520	4,850,218
Other taxes	2,183,448	2,090,827
Grants and entitlements	13,994,946	13,169,678
Earnings on investments	2,718	7,861
Miscellaneous	<u>(344,597)</u>	<u>441,202</u>
Total general revenues	<u>20,721,035</u>	<u>20,559,786</u>
Total revenues	<u>26,214,461</u>	<u>27,258,862</u>
Expenses:		
Instruction	17,394,472	16,590,153
Student support services	785,082	671,809
Instructional support	619,850	1,080,708
District administration	766,319	711,387
School administration	1,070,063	867,083
Business support	554,162	544,753
Plant operations	2,016,819	2,083,400
Student transportation	1,189,450	1,581,499
Other	173,576	155,874
Facilities acquisition & construction	19,312	-
Community support	219,951	241,351
Debt service	525,069	315,970
Food service	<u>1,716,589</u>	<u>1,717,992</u>
Total expenses	<u>27,050,714</u>	<u>26,561,979</u>
Excess (deficit) of revenues over expenses	<u>\$ (836,253)</u>	<u>\$ 696,883</u>

General Fund Revenue

The majority of revenue was derived from State SEEK Funds (37%) with local funding making up 25% of total revenue.

**MASON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
YEAR ENDED JUNE 30, 2012**

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$1,341,764 in contingency (7%). The beginning cash balance for the fiscal year is \$4,862,694.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Questions regarding this report should be directed to Mr. Donald Pace, Interim Superintendent or Mr. Kermit Belcher, Assistant Superintendent at (606) 564-5563 or by mail at P.O. Box 130, Maysville, Kentucky 41056.

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - DISTRICT WIDE
AS OF JUNE 30, 2012**

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
CURRENT			
Cash and cash equivalents	\$ 3,661,974	\$ 223,931	\$ 3,885,905
Accounts receivable	723,142	-	723,142
Inventory	-	26,969	26,969
Total current	<u>4,385,116</u>	<u>250,900</u>	<u>4,636,016</u>
NONCURRENT			
Bond origination costs - net	131,934	-	131,934
Land and land improvements	2,541,577	-	2,541,577
Buildings and improvements	31,191,191	-	31,191,191
Furniture and equipment	8,891,430	393,280	9,284,710
Less: accumulated depreciation	<u>(18,074,526)</u>	<u>(296,249)</u>	<u>(18,370,775)</u>
Total noncurrent	<u>24,681,606</u>	<u>97,031</u>	<u>24,778,637</u>
Total assets	<u><u>\$ 29,066,722</u></u>	<u><u>\$ 347,931</u></u>	<u><u>\$ 29,414,653</u></u>
LIABILITIES			
CURRENT			
Accrued interest	\$ 94,831	\$ -	\$ 94,831
Current portion of bonds payable	1,020,000	-	1,020,000
Current portion of capital lease obligation	250,548	-	250,548
Current portion of accrued sick leave	30,187	-	30,187
Accounts payable	124,340	1,964	126,304
Accrued payroll and related liabilities	237,846	-	237,846
Deferred revenue	<u>88,049</u>	<u>-</u>	<u>88,049</u>
Total current	<u>1,845,801</u>	<u>1,964</u>	<u>1,847,765</u>
NONCURRENT			
Accrued sick leave	271,687	-	271,687
Capital lease obligation	504,783	-	504,783
Long term bonds payable	<u>11,960,000</u>	<u>-</u>	<u>11,960,000</u>
Total noncurrent	<u>12,736,470</u>	<u>-</u>	<u>12,736,470</u>
Total liabilities	<u>14,582,271</u>	<u>1,964</u>	<u>14,584,235</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,946,275	97,031	11,043,306
Restricted for:			
Capital projects	258,437	-	258,437
Net assets	-	221,967	221,967
Committed			
Site-Based Decision Making	25,795	-	25,795
Sick leave	182,386	-	182,386
Nonspendable	-	26,969	26,969
Unassigned	<u>3,071,558</u>	<u>-</u>	<u>3,071,558</u>
Total net assets	<u>14,484,451</u>	<u>345,967</u>	<u>14,830,418</u>
Total liabilities and net assets	<u><u>\$ 29,066,722</u></u>	<u><u>\$ 347,931</u></u>	<u><u>\$ 29,414,653</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES - DISTRICT WIDE
FOR THE YEAR ENDED JUNE 30, 2012**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities							
Instruction	\$ 17,394,472	\$ 99,291	\$ 2,604,328	\$ -	\$ (14,690,853)	\$ -	\$ (14,690,853)
Support services:							
Student	785,082	35,047	47,140	-	(702,895)	-	(702,895)
Instruction staff	619,850	-	115,637	-	(504,213)	-	(504,213)
District administration	766,319	-	200	-	(766,119)	-	(766,119)
School administration	1,070,063	-	-	-	(1,070,063)	-	(1,070,063)
Business	554,162	-	3,584	-	(550,578)	-	(550,578)
Plant operation and maintenance	2,016,819	1,405	-	-	(2,015,414)	-	(2,015,414)
Student transportation	1,189,450	12,739	-	-	(1,176,711)	-	(1,176,711)
Other instructional	164,836	-	164,836	-	-	-	-
Facilities acquisition and construction	19,312	-	-	511,131	491,819	-	491,819
Community service activities	219,951	-	215,354	-	(4,597)	-	(4,597)
Other	8,740	-	-	-	(8,740)	-	(8,740)
Interest on long-term debt	525,069	-	-	-	(525,069)	-	(525,069)
Total governmental activities	25,334,125	148,482	3,151,079	511,131	(21,523,433)	-	(21,523,433)
Business-type Activities							
Food service	1,716,589	537,848	1,144,886	-	-	(33,855)	(33,855)
Total business-type activities	1,716,589	537,848	1,144,886	-	-	(33,855)	(33,855)
Total school district	\$ 27,050,714	\$ 686,330	\$ 4,295,965	\$ 511,131	\$ (21,523,433)	\$ (33,855)	\$ (21,557,288)
General Revenues							
Property taxes					\$ 4,884,520	\$ -	\$ 4,884,520
Delinquent property taxes					30,502	-	30,502
Motor vehicle taxes					612,742	-	612,742
Utility taxes					1,425,563	-	1,425,563
Other taxes					27,972	-	27,972
Revenue in lieu of taxes					86,669	-	86,669
Investment earnings					2,588	130	2,718
Loss on bond refunding					(704,560)	-	(704,560)
State and federal aid formula grants					13,994,946	-	13,994,946
Gain on sale of fixed assets					14,873	-	14,873
Bond principal paid by KSFCC					349,754	-	349,754
Miscellaneous					(4,664)	-	(4,664)
Total general revenues					20,720,905	130	20,721,035
Change in net assets					(802,528)	(33,725)	(836,253)
Net assets - beginning					15,286,979	379,692	15,666,671
Net assets - ending					\$ 14,484,451	\$ 345,967	\$ 14,830,418

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012**

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUND</u>	<u>CONSTRUCTION FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS					
CURRENT					
Cash and cash equivalents (overdraft)	\$ 3,195,724	\$ (143,215)	\$ 130,000	\$ 479,465	\$ 3,661,974
Other receivables	477,893	245,249	-	-	723,142
Total assets	<u>\$ 3,673,617</u>	<u>\$ 102,034</u>	<u>\$ 130,000</u>	<u>\$ 479,465</u>	<u>\$ 4,385,116</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 110,355	\$ 13,985	\$ -	\$ -	\$ 124,340
Accrued payroll and related liabilities	237,846	-	-	-	237,846
Deferred revenue	-	88,049	-	-	88,049
Total liabilities	<u>348,201</u>	<u>102,034</u>	<u>-</u>	<u>-</u>	<u>450,235</u>
FUND BALANCES					
Restricted					
Capital projects	-	-	130,000	128,437	258,437
Committed					
Sick Leave	182,386	-	-	-	182,386
Site-Based Decision Making	25,795	-	-	-	25,795
Unassigned	3,117,235	-	-	351,028	3,468,263
Total fund balances	<u>3,325,416</u>	<u>-</u>	<u>130,000</u>	<u>479,465</u>	<u>3,934,881</u>
Total liabilities and fund balances	<u>\$ 3,673,617</u>	<u>\$ 102,034</u>	<u>\$ 130,000</u>	<u>\$ 479,465</u>	<u>\$ 4,385,116</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012**

Total fund balance per fund financial statements		\$ 3,934,881
Amounts reported for governmental activities in the statement of net assets are different because:		
Unamortized bond issuance costs		131,934
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.		
Cost of capital assets	42,624,198	
Accumulated depreciation	<u>(18,074,526)</u>	
		24,549,672
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.		
Bonds payable	(12,980,000)	
Notes payable	-	
Capital leases	(755,331)	
Accrued interest on bonds	(94,831)	
Accrued sick leave	<u>(301,874)</u>	
		<u>(14,132,036)</u>
Net assets for governmental activities		<u><u>\$ 14,484,451</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

MASON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
From local sources					
Property taxes	\$ 4,302,888	\$ -	\$ -	\$ 612,134	\$ 4,915,022
Motor vehicle taxes	612,742	-	-	-	612,742
Utility taxes	1,425,563	-	-	-	1,425,563
Other taxes	27,972	-	-	-	27,972
Tuition and fees	32,461	-	-	-	32,461
Earnings on investments	2,561	27	-	-	2,588
Other local revenues	111,357	106,358	-	-	217,715
State sources					
SEEK	9,764,710	-	-	511,131	10,275,841
Other	4,094,304	864,147	-	-	4,958,451
Intermediate sources	-	-	-	-	-
Federal - direct	66,426	-	-	-	66,426
Federal - indirect	69,506	2,180,574	-	-	2,250,080
Revenue in lieu of taxes	86,669	-	-	-	86,669
Other revenues	-	-	-	-	-
Total revenues	20,597,159	3,151,106	-	1,123,265	24,871,530
EXPENDITURES					
Instruction	14,791,021	2,665,182	-	-	17,456,203
Support services					
Student	704,611	47,140	-	-	751,751
Instruction staff	493,701	115,637	-	-	609,338
District administration	754,502	200	-	-	754,702
School administration	1,064,347	-	-	-	1,064,347
Business	547,398	3,584	-	-	550,982
Plant operation and maintenance	1,928,578	-	-	88,182	2,016,760
Student transportation	1,802,261	-	-	-	1,802,261
Other instructional	-	164,836	-	-	164,836
Food service operation	-	-	-	-	-
Facilities acquisition and construction	1,112	-	-	-	1,112
Community service activities	-	215,354	-	-	215,354
Debt service	222,681	-	-	816,271	1,038,952
Total expenditures	22,310,212	3,211,933	-	904,453	26,426,598
Excess (deficit) of revenues over expenditures	(1,713,053)	(60,827)	-	218,812	(1,555,068)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of fixed assets and loan proceeds	18,814	-	-	-	18,814
Proceeds from sale of bonds	719,281	-	-	-	719,281
Operating transfers in	466,782	60,827	130,000	-	657,609
Operating transfers out	(60,827)	-	-	(596,782)	(657,609)
Total other financing sources (uses)	1,144,050	60,827	130,000	(596,782)	738,095
Net change in fund balances	(569,003)	-	130,000	(377,970)	(816,973)
Fund balance, July 1, 2011	3,894,419	-	-	857,435	4,751,854
Fund balance, June 30, 2012	\$ 3,325,416	\$ -	\$ 130,000	\$ 479,465	\$ 3,934,881

(See Auditors' Report and Accompanying Notes to the Financial Statements)

MASON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Net change in total fund balances per fund financial statements	\$ (816,973)
Amounts reported for governmental activities in the statement of activities are different because:	
Proceeds from capital lease	(719,281)
Loss on bond refunding less capitalized loan costs	(704,560)
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation exceeds capital outlays and retirements.	
Depreciation expense	(1,134,285)
Retirement of capital assets	(3,941)
Construction in progress	(18,200)
Capital outlays	<u>1,425,973</u>
	269,547
Net bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	
Principal paid	860,000
Capital lease payments	<u>250,945</u>
	1,110,945
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>57,794</u>
Changes in net assets of governmental activities	<u><u>\$ (802,528)</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

MASON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>BUDGETED AMOUNTS</u>			VARIANCE WITH
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES				
From local sources				
Property taxes	\$ 3,900,001	\$ 3,900,001	\$ 4,302,888	\$ 402,887
Motor vehicle taxes	475,000	475,000	612,742	137,742
Utility taxes	1,300,000	1,300,000	1,425,563	125,563
Other taxes	50,629	50,629	27,972	(22,657)
Tuition and fees	31,500	31,500	32,461	961
Earnings on investments	10,000	10,000	2,561	(7,439)
Other local revenue	11,100	11,100	111,357	100,257
State sources				
SEEK	10,759,392	10,759,392	9,764,710	(994,682)
Other	79,000	79,000	4,094,304	4,015,304
Federal - direct	40,000	40,000	66,426	26,426
Federal - indirect	15,000	15,000	69,506	54,506
Revenue in lieu of taxes	86,000	86,000	86,669	669
Other revenues	-	-	-	-
Total revenues	<u>16,757,622</u>	<u>16,757,622</u>	<u>20,597,159</u>	<u>3,839,537</u>
EXPENDITURES				
Instruction	10,802,464	10,770,905	14,791,021	(4,020,116)
Support services				
Student	645,555	645,555	704,611	(59,056)
Instruction staff	634,595	639,346	493,701	145,645
District administration	794,681	794,681	754,502	40,179
School administration	830,560	830,560	1,064,347	(233,787)
Business	473,695	473,695	547,398	(73,703)
Plant operation and maintenance	3,088,434	3,088,434	1,928,578	1,159,856
Student transportation	1,710,902	1,710,902	1,802,261	(91,359)
Central office	-	-	-	-
Contingency	1,341,764	1,341,764	-	1,341,764
Community services	4,000	4,000	-	4,000
Facilities acquisition and construction	35,000	35,000	1,112	33,888
Debt service	5,000	5,000	222,681	(217,681)
Total expenditures	<u>20,366,650</u>	<u>20,339,842</u>	<u>22,310,212</u>	<u>(1,970,370)</u>
Excess (deficit) of revenues over expenditures	<u>(3,609,028)</u>	<u>(3,582,220)</u>	<u>(1,713,053)</u>	<u>1,869,167</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of fixed assets and loans	-	-	18,814	18,814
Proceeds from sale of bonds	-	-	719,281	719,281
Operating transfers in	-	-	466,782	466,782
Operating transfers out	(61,368)	(61,368)	(60,827)	541
Total other financing sources (uses)	<u>(61,368)</u>	<u>(61,368)</u>	<u>1,144,050</u>	<u>1,205,418</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(3,670,396)</u>	<u>(3,643,588)</u>	<u>(569,003)</u>	<u>3,074,585</u>
Fund balance, July 1, 2011	<u>3,670,396</u>	<u>3,670,396</u>	<u>3,894,419</u>	<u>224,023</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ 26,808</u>	<u>\$ 3,325,416</u>	<u>\$ 3,298,608</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
AS OF JUNE 30, 2012**

ASSETS	FOOD SERVICE FUND	TOTAL
CURRENT		
Cash and cash equivalents	\$ 223,931	\$ 223,931
Accounts receivable	-	-
Inventory	26,969	26,969
Total current	250,900	250,900
NONCURRENT		
Furniture and equipment	393,280	393,280
Less: accumulated depreciation	(296,249)	(296,249)
Total noncurrent	97,031	97,031
Total assets	<u>\$ 347,931</u>	<u>\$ 347,931</u>
LIABILITIES		
CURRENT		
Accounts payable	\$ 1,964	\$ 1,964
Current portion of capital lease obligation	-	-
Total current	1,964	1,964
NONCURRENT		
Capital lease obligation	-	-
Total liabilities	1,964	1,964
NET ASSETS		
Invested in capital assets, net of related debt	97,031	97,031
Nonspendable - inventories	26,969	26,969
Restricted - net assets	221,967	221,967
Total net assets	345,967	345,967
Total liabilities and net assets	<u>\$ 347,931</u>	<u>\$ 347,931</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

MASON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	FOOD SERVICE FUND	TOTAL
OPERATING REVENUES		
Food service sales	\$ 537,848	\$ 537,848
Other operating revenues	-	-
	<hr/>	<hr/>
Total operating revenues	<u>537,848</u>	<u>537,848</u>
OPERATING EXPENSES		
Salaries and wages	711,081	711,081
Professional and contract services	31,831	31,831
Supplies and materials	962,734	962,734
Depreciation	9,735	9,735
Other operating expenses	1,208	1,208
	<hr/>	<hr/>
Total operating expenses	<u>1,716,589</u>	<u>1,716,589</u>
Operating loss	<u>(1,178,741)</u>	<u>(1,178,741)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	1,007,125	1,007,125
State grants	106,942	106,942
Donated commodities and other donations	30,819	30,819
Interest income	130	130
Loss on fixed assets	-	-
Transfer of funds	-	-
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	<u>1,145,016</u>	<u>1,145,016</u>
Net loss	(33,725)	(33,725)
Total net assets, July 1, 2011	<u>379,692</u>	<u>379,692</u>
Total net assets, June 30, 2012	<u><u>\$ 345,967</u></u>	<u><u>\$ 345,967</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	FOOD SERVICE FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from lunchroom sales	\$ 537,848	\$ 537,848
Cash received from other activities	-	-
Cash payments to employees for services	(711,081)	(711,081)
Cash payments to suppliers for goods and services	(980,086)	(980,086)
Cash payments for other operating activities	(1,208)	(1,208)
	<u>(1,154,527)</u>	<u>(1,154,527)</u>
Net cash used in operating activities		
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal payments on capital leases	-	-
Acquisition of capital assets	(16,381)	(16,381)
	<u>(16,381)</u>	<u>(16,381)</u>
Net cash used in capital financing activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Non-operating grants received	1,159,441	1,159,441
	<u>1,159,441</u>	<u>1,159,441</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Transfer of funds	-	-
Interest on investments	130	130
	<u>130</u>	<u>130</u>
Net cash provided by investing activities		
Net decrease in cash and cash equivalents	(11,337)	(11,337)
Cash and cash equivalents - beginning	235,268	235,268
Cash and cash equivalents - ending	<u>\$ 223,931</u>	<u>\$ 223,931</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (1,178,741)	\$ (1,178,741)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation	9,735	9,735
Changes in assets and liabilities:		
Decrease in inventory	12,582	12,582
Increase in accounts payable	1,897	1,897
	<u>24,214</u>	<u>24,214</u>
Net cash used in operating activities	<u>\$ (1,154,527)</u>	<u>\$ (1,154,527)</u>
SCHEDULE OF NON-CASH TRANSACTIONS		
Donated commodities received from federal government	<u>\$ 30,819</u>	<u>\$ 30,819</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUND
AS OF JUNE 30, 2012**

	<u>TRUST/AGENCY FUND</u>	<u>TOTAL</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 21,956	\$ 21,956
Total current assets	<u>21,956</u>	<u>21,956</u>
NONCURRENT		
Capital assets	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 21,956</u></u>	<u><u>\$ 21,956</u></u>
LIABILITIES		
CURRENT		
Total current	<u>\$ -</u>	<u>\$ -</u>
NONCURRENT		
Total noncurrent	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
NET ASSETS		
Unassigned	<u>21,956</u>	<u>21,956</u>
Total net assets	<u>21,956</u>	<u>21,956</u>
Total liabilities and net assets	<u><u>\$ 21,956</u></u>	<u><u>\$ 21,956</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>TRUST/AGENCY FUND</u>	<u>TOTAL</u>
ADDITIONS		
Net interest and investment gains	\$ 15	\$ 15
Total additions	<u>15</u>	<u>15</u>
DEDUCTIONS		
Supplies and materials	<u>1,588</u>	<u>1,588</u>
Total deductions	<u>1,588</u>	<u>1,588</u>
Change in net assets	(1,573)	(1,573)
Net assets - July 1, 2011	<u>23,529</u>	<u>23,529</u>
Net assets - June 30, 2012	<u><u>\$ 21,956</u></u>	<u><u>\$ 21,956</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Mason County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Mason County School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Mason County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Mason County School District Finance Corporation - The Mason County Board of Education authorized the establishment of the Mason County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Mason County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The District-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the District-wide statements and the statements for governmental funds.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

The District-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report on page 43. This is a major fund of the District.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

I. Governmental Fund Types (cont'd)

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

III. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service fund is a major fund of the District.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

IV. Fiduciary Fund Type (agency and trust funds)

The Trust/Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Accounting (cont'd)

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water and natural, artificial and mixed gas.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP) of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Inventories

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the District-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the District-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the District-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fund Balance Reserves

Beginning with fiscal year 2011, the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in the General fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

At year end, the District had on deposit cash and cash equivalents totaling \$4,673,995. Of the total cash balance, \$457,614 was covered by the Federal Deposit Insurance Corporation (FDIC), with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2012 consist of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
US Bank	\$ 4,466,381	\$ 3,984,701
Bank of Maysville	<u>207,614</u>	<u>202,971</u>
Total	<u>\$ 4,673,995</u>	<u>\$ 4,187,672</u>

Allocation per financial statements:

Governmental funds	\$ 3,661,974
Proprietary funds	223,931
Agency funds	21,956
Activity funds	<u>279,811</u>
	<u>\$ 4,187,672</u>

NOTE D - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2012, this amount totaled approximately \$301,874 for those employees with twenty-seven or more years of experience. The Board has reserved \$182,386 of its General Fund for unpaid sick leave benefits.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE E - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Land and land improvements	\$ 2,541,577	\$ -	\$ -	\$ 2,541,577
Buildings and improvements	31,191,191	-	-	31,191,191
Technology equipment	3,382,371	878,854	232,410	4,028,815
Vehicles	3,143,966	522,954	-	3,666,920
General equipment	1,171,530	24,165	-	1,195,695
Totals at historical cost	41,430,635	1,425,973	232,410	42,624,198
Less: accumulated depreciation				
Land improvements	1,221,250	5,407	-	1,226,657
Buildings and improvements	10,259,977	605,434	-	10,865,411
Technology equipment	2,789,809	289,126	228,469	2,850,466
Vehicles	2,157,793	163,279	-	2,321,072
General equipment	739,881	71,039	-	810,920
Total accumulated depreciation	17,168,710	1,134,285	228,469	18,074,526
Governmental activities capital assets - net	<u>\$ 24,261,925</u>	<u>\$ 291,688</u>	<u>\$ 3,941</u>	<u>\$ 24,549,672</u>
<u>Business - Type Activities</u>				
General equipment	\$ 330,031	\$ 16,381	\$ -	\$ 346,412
Technology equipment	48,658	-	1,790	46,868
Totals at historical cost	378,689	16,381	1,790	393,280
Less: accumulated depreciation				
General equipment	246,183	8,358	-	254,541
Technology equipment	42,121	1,377	1,790	41,708
Total accumulated depreciation	288,304	9,735	1,790	296,249
Business - type activities capital assets - net	<u>\$ 90,385</u>	<u>\$ 6,646</u>	<u>\$ -</u>	<u>\$ 97,031</u>

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE F – COMMITMENTS UNDER CAPITAL LEASES

The District is the lessee of equipment and buses under capital leases expiring between 2011 and 2021. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

Future minimum lease payments under capital leases as of June 30, 2012, for each of the next five years and in the aggregate are as follows:

2013	\$ 265,034
2014	260,384
2015	108,639
2016	31,453
Thereafter	<u>146,504</u>
Total minimum rentals	812,014
Less: amount representing interest	<u>56,683</u>
Present value of net minimum lease payments	<u>\$ 755,331</u>

NOTE G - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
December 2002	\$ 1,100,000	1.750% - 3.850%
March 2004	\$ 14,425,000	2.000% - 4.375%
February 2009	\$ 1,450,000	1.500% - 2.000%
April 2012	\$ 9,235,000	1.238% - 2.400%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE G - LEASE OBLIGATIONS AND BONDED DEBT (CONT'D)

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table in Note Q sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

All issues may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012, for debt service (principal and interest) are as reported on Note Q on page 35.

Defeased Bonds

As of June 30, 2012, the outstanding principal amount of indebtedness that is considered to be extinguished under "in substance defeasance" and therefore excluded from the financial statements was approximately \$8,460,000

NOTE H - COMMITMENTS UNDER NONCAPITALIZED LEASES

The District leases equipment under operating leases expiring in various years through 2016. Future minimum lease payments under operating lease agreements for equipment as of June 30, 2012, are as follows:

Year ending June 30:

2013	\$ 147,873
2014	147,423
2015	146,888
2016	85,975
2017 and after	<u>-</u>
Total minimum lease payments	<u>\$ 528,159</u>

NOTE I - RETIREMENT PLANS

Kentucky Teachers Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), a cost sharing, multiple-employer retirement system created by and maintained by Kentucky legislature. KTRS provides retirement, death and disability benefits to Plan members.

Plan members are required to contribute 10.355% of their annual creditable compensation. Members hired on or after July 1, 2008 pay an additional .5% of their salary to the medical insurance fund. Matching contributions are made by the state in the form of on behalf payments. The district is required to remit matching contributions on those school district employees whose salaries are paid by federally programs. This federal matching rate is 13.605% for employees hired before July 1, 2008 and 14.105% for employees hired after July 1, 2008. The contribution requirement for KTRS for the year ended June 30, 2012, was \$1,505,788, which consisted of \$194,219 from the District and \$1,311,569 from the employees. Total contributions for the year ended June 30, 2011 and 2010 were \$1,420,047 and \$1,386,189, respectively. The contributions have been contributed in full for fiscal years 2012, 2011 and 2010.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE I - RETIREMENT PLANS (CONT'D)

County Employees Retirement System

Classified employees who work an average of 80 hours per month over the actual days worked during the school year participate in the County Employees Retirement System (CERS). This is a cost sharing, multiple-employer, public employers retirement plan created and maintained by Kentucky legislature and provides retirement, death and disability benefits to Plan members.

Participating employees contribute 5% of creditable compensation. Participants hired after August 31, 2008 are required to contribute 6%. Matching contributions are made by the state at a rate as required by the Board of Trustees to be necessary for the actuarial soundness per Kentucky Revised Statute 61.565. The contribution requirement for CERS for the year ended June 30, 2012, was \$752,613, which consisted of \$591,483 from the District and \$161,130 from the employees. Total contributions for the year ended June 30, 2011 and 2010 were \$687,844 and \$648,101, respectively. The contributions have been contributed in full for fiscal years 2012, 2011 and 2010.

The District's total payroll for the year was \$15,858,011. The payroll for employees covered under KTRS was \$11,726,606 and for CERS was \$3,049,114.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers. KTRS and CERS both issue a publicly available financial report that includes all financial statements and required supplementary information. The reports can be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 and the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY.

NOTE J - CONTINGENCIES

Grant Fund Approval

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, which includes workers' compensation insurance.

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

General Fund	\$ 569,003
Capital Outlay Fund	\$ 281,889
Building Fund	\$ 96,081
Food Service Fund	\$ 33,725
Straub Elementary	\$ 16,407
Mason County Intermediate	\$ 12,293
Mason County High School	\$ 3,464
Fiduciary Fund	\$ 1,573

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

NOTE O - TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
1	2	Matching	\$ 60,827
310	360	Construction	\$ 130,000
310	1	Operating	\$ 218,182
320	1	Operating	\$ 248,600

NOTE P - ON-BEHALF PAYMENTS

For the year ended June 30, 2012, total payments of \$4,052,976 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and are recorded as revenue and expense in the following funds:

General Fund	\$ 3,962,696
Food Service	<u>90,280</u>
Total On Behalf Payments	<u>\$ 4,052,976</u>

**MASON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE Q - MATURITY OF GENERAL LONG-TERM OBLIGATIONS

	2002, 2004, 2009 AND 2012 SERIES				
FISCAL YEAR	MASON COUNTY SCHOOL DISTRICT		KY SCHOOL FACILITIES CONSTRUCTION COMMISSION		TOTAL REQUIREMENTS
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2012-2013	\$ 599,522	\$ 174,255	\$ 420,478	\$ 114,989	\$ 1,309,244
2013-2014	588,434	180,642	391,566	114,452	1,275,094
2014-2015	611,468	163,275	403,532	102,485	1,280,760
2015-2016	628,652	144,407	416,348	89,667	1,279,074
2016-2017	639,925	124,168	430,075	75,942	1,270,110
2017-2018	653,009	112,114	396,991	68,038	1,230,152
2018-2019	665,067	99,052	404,933	60,098	1,229,150
2019-2020	681,462	84,920	413,538	51,492	1,231,412
2020-2021	697,680	70,440	422,320	42,704	1,233,144
2021-2022	713,176	54,741	431,824	33,203	1,232,944
2022-2023	727,919	37,803	442,081	22,947	1,230,750
2023-2024	746,871	19,605	453,129	11,895	1,231,500
	<u>\$ 7,953,185</u>	<u>\$ 1,265,422</u>	<u>\$ 5,026,815</u>	<u>\$ 787,912</u>	<u>\$ 15,033,334</u>

NOTE R - SUBSEQUENT EVENTS

Subsequent events were considered through November 15, 2012, which represents the release date of this report.

**MASON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012**

		CAPITAL OUTLAY FUND	BUILDING FUND	TOTAL NONMAJOR GOVT. FUNDS
	ASSETS			
CURRENT				
	Cash and cash equivalents	\$ -	\$ 479,465	\$ 479,465
	Accounts receivable	-	-	-
	Total assets	<u>\$ -</u>	<u>\$ 479,465</u>	<u>\$ 479,465</u>
	LIABILITIES AND FUND BALANCES			
LIABILITIES				
	Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
	Restricted			
	Capital projects	-	128,437	128,437
	Unassigned	<u>-</u>	<u>351,028</u>	<u>351,028</u>
	Total fund balances	<u>-</u>	<u>479,465</u>	<u>479,465</u>
	Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 479,465</u>	<u>\$ 479,465</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	CAPITAL OUTLAY FUND	BUILDING FUND	TOTAL NONMAJOR GOVT. FUNDS
REVENUES			
From local sources			
Property taxes	\$ -	\$ 612,134	\$ 612,134
Motor vehicle taxes	-	-	-
Other taxes	-	-	-
Earnings on investments	-	-	-
State sources			
SEEK	243,599	267,532	511,131
Other	-	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	243,599	879,666	1,123,265
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Support services			
Instruction staff	-	-	-
Plant operation and maintenance	88,182	-	88,182
Facilities acquisition and construction	-	-	-
Debt service	89,124	727,147	816,271
	<hr/>	<hr/>	<hr/>
Total expenditures	177,306	727,147	904,453
	<hr/>	<hr/>	<hr/>
Excess of revenues over expenditures	66,293	152,519	218,812
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)	(348,182)	(248,600)	(596,782)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(348,182)	(248,600)	(596,782)
	<hr/>	<hr/>	<hr/>
Excess of expenditures and other financing uses over revenues and other financing sources	(281,889)	(96,081)	(377,970)
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(281,889)	(96,081)	(377,970)
	<hr/>	<hr/>	<hr/>
Fund balance, July 1, 2011	281,889	575,546	857,435
	<hr/>	<hr/>	<hr/>
Fund balance, June 30, 2012	\$ -	\$ 479,465	\$ 479,465
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
BOND AND INTEREST REDEMPTION FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>ISSUE OF 2002</u>	<u>ISSUE OF 2004</u>	<u>ISSUE OF 2009</u>	<u>ISSUE OF 2012</u>	<u>Total</u>
Cash at July 1, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Receipts:					
Transfers and miscellaneous deposits	<u>105,564</u>	<u>542,604</u>	<u>168,103</u>	<u>-</u>	<u>816,271</u>
Disbursements:					
Bonds paid	97,696	263,330	149,220	-	510,246
Interest coupons	7,868	279,274	18,883	-	306,025
Transfers and miscellaneous	-	-	-	-	-
Call fee	-	-	-	-	-
Total disbursements	<u>105,564</u>	<u>542,604</u>	<u>168,103</u>	<u>-</u>	<u>816,271</u>
Excess of disbursements over receipts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash at June 30, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accounts Receivable and Payable:					
Matured interest and bonds outstanding	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total accounts receivable and payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2012	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(See Auditor's Report and Accompanying Notes to the Financial Statements)

MASON COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
MASON COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	FUND BALANCE JULY 1, 2011	RECEIPTS	DISBURSEMENTS	FUND BALANCE JUNE 30, 2012
ACT prep	\$ 227	\$ 950	\$ 1,169	\$ 8
AP exams	368	3,901	3,833	436
Art class	14	-	-	14
Art club	12	5,060	4,224	848
Athletics	14,595	144,232	158,041	786
Band	38	207	-	245
Band boosters	4,742	28,833	28,529	5,046
Band II	244	522	200	566
Baseball facilities	2,147	5,652	3,499	4,300
Baseball	1,714	13,681	13,404	1,991
Beta club	473	778	814	437
Boys basketball coach	1,931	18,664	15,436	5,159
Boys basketball spirit gear	-	2,599	903	1,696
Boys basketball camp	781	1,645	1,841	585
Boy/Girl district	60	-	60	-
Bus trips	45	-	-	45
Champions against	488	626	304	810
Cheerleaders	1,749	8,802	7,937	2,614
Class fees	3,390	973	3,904	459
Class of 2012	6,519	-	4,198	2,321
Class of 2013	1,638	14,148	12,561	3,225
Class of 2014	896	-	-	896
Class of 2015	1,621	-	-	1,621
Coffee Fund	-	230	216	14
Concessions - football	-	24,129	23,629	500
Concessions B/G BB	-	25,375	25,375	-
Cross country	1,234	11,779	12,597	416
Dance team	55	1,580	1,635	-
Daycare	5	-	-	5
Discipline	45	200	-	245
Drama club	22	-	-	22
F.E.A.	1,622	8,626	9,616	632
Family, consumer	33	-	-	33
Fastpitch softball	1,135	836	1,806	165
FFA Alumni	1,691	1,289	622	2,358
FCCLA	240	25,353	25,593	-
FCCLA national meeting	-	18,160	18,065	95
FCCLA-Region 9	-	1,364	1,317	47
FCCLA scholarship	-	250	-	250
Fellowship of christian athletes	190	-	-	190
Flower fund	55	95	129	21
Football capital	6,680	19,796	20,934	5,542
Football coaches	3,890	7,175	10,698	367
Football spirit gear	-	7,563	7,473	90
Football supplemental	1,143	8,295	8,158	1,280

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
MASON COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	FUND BALANCE JULY 1, 2011	RECEIPTS	DISBURSEMENTS	FUND BALANCE JUNE 30, 2012
Future business	\$ 6	\$ -	\$ -	\$ 6
Future Farmers of America	1,980	14,346	11,692	4,634
General	1,069	28,785	29,310	544
General student fee	9,171	164	9,315	20
Girls basketball	-	21,123	20,886	237
Girls golf	627	3,942	3,368	1,201
Girls golf tournament	1,580	3,170	4,150	600
Girls support group	85	-	-	85
Golf boys	583	3,193	2,496	1,280
Golf tournament	278	4,375	4,653	-
Health fair	218	200	363	55
Hot shots	322	-	-	322
Interest	81	123	35	169
Ipad help desk	-	100	-	100
Knights FB	-	3,454	1,449	2,005
Lab fees	1,739	34	3	1,770
Library	1,143	1,858	2,571	430
Literacy magazine	-	1,050	625	425
Literacy partners	11	-	-	11
LYO/Downing grant	1,202	-	240	962
M.C. athletic boosters	19,512	-	2,500	17,012
MCMS boys soccer	223	2,248	1,287	1,184
MCMS girls soccer	80	1,752	1,331	501
Music choir	1,885	120	1,299	706
Music grant	1,410	20	615	815
Music keyboard lab	1,245	-	-	1,245
Music orchestra	3,291	13,191	13,538	2,944
Music patrons	2,324	11,715	5,753	8,286
Music production	5,273	25,231	19,974	10,530
Music scholarships	7,869	2,821	5,109	5,581
Music travel	2,495	25,509	22,005	5,999
Music tux & dress	1,096	3,051	3,472	675
Music/grant/library	2,061	-	-	2,061
National Honor Society	307	350	637	20
Newspaper	241	-	-	241
Parental involvement	398	-	300	98
Parking	833	3,200	678	3,355
Pee wee basketball	-	2,765	2,640	125
Peer mediators	386	-	-	386
Physics class	30	-	-	30
Practice living	-	405	405	-
Principal activities	968	5,840	6,805	3
Project graduation	3,162	3,726	3,241	3,647
PSAT	-	634	560	74
Red cross	243	-	-	243

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
MASON COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	FUND BALANCE JULY 1, 2011	RECEIPTS	DISBURSEMENTS	FUND BALANCE JUNE 30, 2012
Regional boys	\$ 125	\$ -	\$ 125	\$ -
Relay for Life	437	845	1,282	-
Rewards room	65	-	-	65
ROTC	3,406	14,522	12,130	5,798
ROTC boosters	39	800	839	-
Royal Icing Bakery	-	652	606	46
S.T.A.R. funds	885	-	-	885
School pictures	676	1,011	1,505	182
Science club	1,243	2,126	1,688	1,681
Senior trip	120	-	-	120
Ski and board club	997	5,037	4,978	1,056
Soccer - 23rd District	-	3,045	3,045	-
Soccer girls	2,986	1,195	1,631	2,550
Soccer parents - boys	536	3,466	3,750	252
Spanish club	453	459	599	313
Special needs students	262	535	633	164
Sr awards	437	25	-	462
Stamps	21	1,026	1,004	43
STLP	656	-	-	656
Student needs	59	730	763	26
Tech ed projects	4,876	17,578	15,697	6,757
Tennis	200	2,098	1,929	369
The one stop royal	673	-	600	73
Track and field	565	24,193	18,342	6,416
Transportation	-	450	450	-
TSA	3,828	365	2,305	1,888
Turf fund	28,357	-	-	28,357
Vending	358	4,523	4,795	86
Video production	17	-	-	17
Virtual schools	600	-	-	600
Visual arts/tech fee	1,250	35	-	1,285
Volleyball	-	2,018	1,830	188
Y club	64	3,590	3,653	1
Yearbook	-	9,521	8,968	553
Total	<u>\$ 191,350</u>	<u>\$ 701,708</u>	<u>\$ 705,172</u>	<u>\$ 187,886</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	MASON COUNTY MIDDLE SCHOOL	MASON COUNTY INTERMEDIATE SCHOOL	STRAUB ELEMENTARY SCHOOL	TOTAL
Fund balance at July 1, 2011	\$ 33,609	\$ 27,378	\$ 53,993	\$ 114,980
Add: receipts	177,136	91,523	161,349	430,008
Less: disbursements	<u>(171,491)</u>	<u>(103,816)</u>	<u>(177,756)</u>	<u>(453,063)</u>
Fund balance at June 30, 2012	<u><u>\$ 39,254</u></u>	<u><u>\$ 15,085</u></u>	<u><u>\$ 37,586</u></u>	<u><u>\$ 91,925</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**MASON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

	CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	EXPENDITURES	PROGRAM / CLUSTER TOTALS
U.S. DEPARTMENT OF EDUCATION				
<i>Passed through the Kentucky Department of Education:</i>				
Rural Education	84.358	3140002 11	\$ 69,799	
Rural Education	84.358	3140002 10	15,397	\$ 85,196
Career and Technical Education - Basic Grants to States	84.048	4620732 11	28,133	
Career and Technical Education - Basic Grants to States	84.048	4620732 10	1,502	29,635
Improving Teacher Quality State Grant	84.367	3230002 11	208,389	
Improving Teacher Quality State Grant	84.367	3230002 10	14,361	222,750
Education Jobs Fund	84.410	EJOB00 10	197,927	197,927
Education Technology State Grants - Recovery Act	84.386	4210001 09	6,201	6,201
Title I - Cluster:				
Title I Grants to Local Educational Agencies - Recovery Act	84.389	4100002 09	30,167	
Title I - Grants to Local Educational Agencies	84.010	3100002 11	853,391	
Title I - Grants to Local Educational Agencies	84.010	3100002 10	91,060	974,618
Special Education Cluster:				
Special Education Grants to States - Recovery Act	84.391	4810002 09	7,422	
Special Education - Preschool Grants - Recovery Act	84.392	4800002 09	1,093	
Special Education Grants to States	84.027	3810002 11	594,831	
Special Education Grants to States	84.027	3810002 10	15,557	
Special Education Preschool Grants	84.173	3800002 11	44,731	
Special Education Preschool Grants	84.173	3800002 10	613	664,247
Total U.S. Department of Education			2,180,574	2,180,574
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed through the Kentucky Department of Education</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002 12	563,904	
National School Lunch Program	10.555	7750002 11	158,202	
School Breakfast Program	10.553	7760005 12	236,267	
School Breakfast Program	10.553	7760005 11	63,306	
<i>Passed through the Kentucky Department of Agriculture</i>				
National School Lunch Program - Food Donation	10.555	081-0100	30,819	1,052,498
Total U.S. Department of Agriculture			1,052,498	1,052,498
U.S. DEPARTMENT OF DEFENSE				
MJROTC	12.000	N/A	60,850	60,850
Total U.S. Department of Defense			60,850	60,850
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through the Kentucky Department of Education</i>				
Cooperative Agreements for Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems				
	93.938	2000001 11	1,500	1,500
Total U.S. Department of Health and Human Services			1,500	1,500
Total Expenditures of Federal Awards			\$ 3,295,422	\$ 3,295,422

**MASON COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Mason County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

**MASON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the basic financial statements of the Mason County School District.
2. Two significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the Mason County School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for Mason County School District expresses an unqualified opinion on all major federal programs.
6. The audit did not disclose any audit findings reportable under section 510 (a) of OMB Circular A-133.
7. The programs tested as major programs include: Title I Grants to Local Educational Agencies, CFDS #84.010; Title I Grants to Local Educational Agencies - Recovery Act, CFDA #84.389; Education Technology State Grants - Recovery Act, CFDA #84.386; Special Education Grants to States, Recovery Act, CFDA #84.391; Special Education - Preschool Grants - Recovery Act, CFDA #84.392; Special Education Grants to States, CFDA #84.027; Special Education Preschool Grants, CFDA #84.173; National School Lunch Program, CFDA #10.555 and School Breakfast Program, CFDA #10.553.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Mason County School District does not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES

2012-01

Condition:	Internal controls that have been established at the District are not being followed consistently.
Criteria:	Controls established by the District require proper authorization prior to disbursement of any funds for reimbursement or other expenditure.
Cause:	While supervisors did approve some requests, those request made by individuals in a management position were often authorized by a subordinate employee.
Effect:	Reimbursements may be issued that have not been properly approved.
Recommendation:	Reimbursement request made should be approved by the next level of management, all requests made by the superintendent should be approved by the board of education members.
Views of Responsible Officials and Planned Corrective Actions:	Mason County School District agrees with the finding. A decision was made in October 2012 to have the board sign everything pertaining to the Superintendent, include ding all travel and reimbursements. No longer will any subordinate approve travel or reimbursements for a supervisor.

**MASON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINDINGS – FINANCIAL STATEMENTS AUDIT (CONT'D)

SIGNIFICANT DEFICIENCIES (CONT'D)

2012-02

Condition:	Employee expense reimbursement requests are not being properly reviewed and authorized by a supervisor.
Criteria:	All requests for expense reimbursements should be approved prior to reimbursement by a supervisor.
Cause:	While supervisors did approve some requests, those request made by individuals in a management position were often authorized by a subordinate employee.
Effect:	Reimbursements may be issued that have not been properly approved.
Recommendation:	Reimbursement request made should be approved by the next level of management, all requests made by the superintendent should be approved by the board of education members.
Views of Responsible Officials and Planned Corrective Actions:	Mason County School District agrees with the finding. A decision was made in October 2012 to have the board sign everything pertaining to the Superintendent, include ding all travel and reimbursements. No longer will any subordinate approve travel or reimbursements for a supervisor.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

**MASON COUNTY SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2012**

BOARD MEMBERS

Janie A. Hord
Term Expires - December 31, 2015

Kevin Carpenter
Term Expires - December 31, 2012

Janet West
Term Expires - December 31, 2012

Ann Porter
Term Expires - December 31, 2012

Vacant Position

ADMINISTRATIVE PERSONNEL

Mr. Donald Pace
Interim Superintendent

Mr. Kermit Belcher
Assistant Superintendent

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Members of the Board of Education
Mason County School District
P.O. Box 130
Maysville, Kentucky 41056

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mason County School District as of and for the year ended June 30, 2012, which collectively comprise the Mason County School District's basic financial statements and have issued our report thereon dated September 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report.

Internal Control Over Financial Reporting

Management of Mason County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Mason County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mason County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mason County School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in

the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies in internal control over financial reporting as items 2012-01 and 2012-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

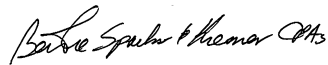
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mason County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02. In addition, the results of our tests disclosed instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements and which are described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02.

Mason County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Mason County School District's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of Mason County School District in a separate letter dated September 13, 2012.

This report is intended solely for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties



Bertke, Sparks & Kremer, Inc.
September 13, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Members of the Board of Education
Mason County School District
P.O. Box 130
Maysville, Kentucky 41056

Compliance

We have audited Mason County School District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Mason County School District's major federal programs for the year ended June 30, 2012. Mason County School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mason County School District's management. Our responsibility is to express an opinion on Mason County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mason County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mason County School District's compliance with those requirements.

In our opinion, Mason County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

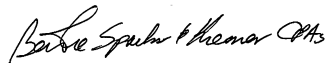
Internal Control Over Compliance

Management of Mason County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mason County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mason County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.



Bertke, Sparks & Kremer, Inc.
September 13, 2012

**MASON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

In planning and performing our audit of the financial statements of Mason County School District for the year ended June 30, 2012, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. A separate report dated September 13, 2012, contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated September 13, 2012, on the financial statements of the Mason County School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

Condition: Internal controls that have been established at the District are not being followed consistently

Criteria: Controls established by the District require proper authorization prior to disbursement of any funds for reimbursement or other expenditure.

Cause: While supervisors did approve some requests, those request made by individuals in a management position were often authorized by a subordinate employee.

Effect: Reimbursements may be issued that have not been properly approved.

Recommendation: Reimbursement request made should be approved by the next level of management, all requests made by the superintendent should be approved by the board of education members.

Response: A decision was made in October 2012 to have the board sign everything pertaining to the Superintendent. The information included all travel and reimbursements. No longer will any subordinate approve travel or reimbursements for a supervisor.

Condition: Employee expense reimbursement requests are not being properly reviewed and authorized by a supervisor.

Criteria: All requests for expense reimbursements should be approved prior to reimbursement by a supervisor.

Cause: While supervisors did approve some requests, those request made by individuals in a management position were often authorized by a subordinate employee.

Effect: Reimbursements may be issued that have not been properly approved.

Recommendation: Reimbursement request made should be approved by the next level of management, all requests made by the superintendent should be approved by the board of education members.

Response: A decision was made in October 2012 to have the board sign everything pertaining to the Superintendent. The information included all travel and reimbursements. No longer will any subordinate approve travel or reimbursements for a supervisor.

**MASON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

CURRENT YEAR RECOMMENDATIONS (CONT'D)

ACTIVITY FUNDS

Mason County High School

Any exceptions noted during testing appeared to be isolated incidents only.

Mason County Middle School

Any exceptions noted during testing appeared to be isolated incidents only.

Mason County Intermediate School

Any exceptions noted during testing appeared to be isolated incidents only.

Straub Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Central Office

None

Mason County High School

None

Mason County Middle School

None

Mason County Intermediate School

None

Straub Elementary

None